



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

PSERS
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DATE: September 19, 2013

SUBJECT: Administrative and Directed Commissions Budgets for Fiscal Year 2014-15

TO: Members of the Audit/Budget Committee

FROM: Brian S. Carl, CPA, CTP, Chief Financial Officer
Andrew D. Fiscus, CPA, Office of Financial Management Director - Investment Accounting & Budget *ADF*

At the October 4, 2013 Audit/Budget Committee meeting the 2014-15 Administrative and Directed Commissions Budget Request will be presented.

2014-15 Budget Request Summary

The proposed Administrative Budget for the 2014-2015 fiscal year totals \$42,523,000 compared to \$41,689,000 for the current year. The overall increase in the Administrative Budget when compared to the current year is 2.0%; this is primarily caused by rising benefit factors within the Personnel Services control level, which will be further discussed during the presentation.

The Directed Commissions Recapture Program Budget for 2014-15 totals \$2,000,000, the same as in the current year. The Directed Commissions program budget may be used for actuarial fees, change orders, and enhancements to the pension system required due to pension legislation.

Attached you will find:

- A summary of the 2014-15 Administrative Budget request with a comparison to the 2013-14 enacted budget and the actual expenditures to date for the 2012-13 and 2011-12 fiscal years.
- Line item notes of explanation for the 2014-15 Administrative Budget.
- The 2014-15 Directed Commissions Recapture Program Budget.
- A power point presentation.
- A proposed resolution recommending Audit/Budget Committee approval of the 2014-15 Administrative Budget and the 2014-15 Directed Commissions Budget.

Budget Process

The budget process is similar to past years. The Audit/Budget Committee will review the proposed budget at its meeting on October 4, 2013. The presentation to the Committee will cover the Administrative Budget and the Directed Commissions Recapture Program Budget for the 2014-15 fiscal year. Analysis of relevant changes will be provided, along with details of major categories of proposed expenditures. It is anticipated that the Board of Trustees will consider the budget at the full Board

Members of the Audit/Budget Committee

September 19, 2013

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meeting also on October 4, 2013. Following approval by the Board, the budget will be submitted, as required, to the Governor's Office of the Budget. The Governor's Budget Office will review PSERS' budget request and prepare a recommended budget amount included in the Governor's Budget released in February 2014. It is expected that the Legislature will hold budget hearings in February/March 2014 at which time PSERS' Board Chair, Executive Director and Chief Investment Officer may be asked to appear before the House and/or Senate Appropriations Committee to provide information on the budget or any other matters regarding PSERS. Upon passage of the budget appropriation by the Legislature and approval by the Governor, both required by June 30, PSERS' modified Administrative Budget request (rebudget) will be approved by the Office of the Budget in July 2014. The rebudget is PSERS' opportunity to recast the initial budget amounts, thereby conforming to the final amount appropriated by the Legislature and approved by the Governor.

If you have any questions before the meeting on October 4, please call either Brian Carl at 717-720-4905 or Andy Fiscus at 717-720-4664.

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
2014-2015 Administrative Budget Request

COMMITMENT		Expenditures 2011/2012	Expenditures (09/10/13) 2012/2013	Enacted Budget Request 2013/2014	Budget Request 2014/2015	Percentage + / (-)
	6000000					
	<i>Budgetary Reserve</i>					
1	6111000					
	Salaries	16,461,571	17,378,848	13,585,235	13,920,199	2.5%
2	6113000					
	Higher Classification Pay	2,809	5,002	960	960	0.0%
3	6121000					
	Wages	375,353	310,962	783,333	459,269	-41.4%
4	6131000					
	Overtime	604,932	451,558	503,808	605,280	20.1%
5	6142000					
	Hospitalization - State Share	1,707,696	1,953,324	2,045,611	2,192,185	7.2%
6	6143000					
	Social Security Contributions - State Share	999,436	1,030,800	919,948	926,538	0.7%
7	6144000					
	Medicare - State Share	247,675	257,985	215,147	216,690	0.7%
8	6145000					
	Retirement Contributions - State Share	1,220,295	1,899,953	2,130,126	2,901,750	36.2%
9	6146000					
	State Workers Insurance Fund - State Share	293,509	324,264	304,489	74,722	-75.5%
10	6147000					
	Employee Life Insurance - State Share	32,046	31,639	30,248	30,600	-0.6%
11	6148000					
	Health Benefits - State Share	2,647,998	2,868,102	2,850,437	2,986,359	4.8%
12	6149000					
	Unemployment Compensation - State Share	3,958	15,722	-	-	-
13	6151000					
	Leave Payout Assessment	242,751	291,820	243,658	264,989	8.8%
	PERSONNEL SERVICES TOTAL	\$24,840,027	\$26,819,979	\$23,613,000	\$24,579,000	-4.1%
14	6311000					
	Travel	81,094	88,831	134,300	145,300	8.2%
15	6321000					
	Training & Conference Registration	82,710	120,014	121,500	140,500	15.6%
16	6331100					
	Telecomm - Recurring	507,285	437,881	417,000	408,500	-2.0%
	6331200					
	Telephone-Non-Recurring	9,027	9,504	11,000	11,000	0.0%
17	6331320					
	Telecomm - Voice Hardware less than \$5,000	149,971	1,103	2,000	2,000	0.0%
18	6332300					
	Electricity	44,392	36,244	44,000	44,000	0.0%
19	6341100					
	Consultant Services - Non IT	529,221	714,101	722,000	800,600	10.9%
20	6341212					
	Consulting- Managed Services - (vendor hosted SW)	2,098	80,254	-	10,000	-
21	6341215					
	Consulting - Maint & Support - (post implementation)	2,641	103,836	77,000	63,000	-18.2%
22	6341216					
	Consulting - Security (Outsourced Inf Sec Services)	10,288	-	-	-	-
23	6341218					
	Consulting - General (IT Support)	151,540	207,630	150,500	212,000	40.9%
24	6341219					
	Consulting - Outsourced Infrastructure Svcs (DPH)	1,883,197	1,896,810	2,030,000	2,130,000	4.9%
25	6342100					
	Legal Services/Fees	(52,664)	(61,768)	58,000	48,000	-17.2%
26	6343100					
	Specialized Services	346,821	343,896	410,000	420,200	2.5%
27	6343117					
	Other Specialized Services	75,106	95,972	246,000	117,400	-52.3%
28	6343200					
	Advertising	-	15,000	10,000	10,000	0.0%
29	6343300					
	Medical, Mental, & Dental Services	3,972	4,803	4,000	4,500	12.5%
30	6344302					
	Software Licensing - Maintenance	817,183	1,015,727	1,046,000	1,052,800	0.7%
31	6344303					
	Hardware Server - Maintenance	448	348	1,000	1,000	0.0%
32	6344304					
	Hardware Network - Maintenance	12,893	11,827	13,000	6,000	-53.8%
32a	6344306					
	Hardware Periph - Maintenance	19,037	21,889	20,000	20,000	0.0%
33	6344307					
	Hardware Desktop - Maintenance	8,649	4,762	4,000	4,000	0.0%
34	6344400					
	Contracted Maintenance Non EDP	248,521	143,230	194,000	195,300	0.7%
34a	6344420					
	Telecom Data Services	297,206	47,863	60,000	43,000	-28.3%
35	6344600					
	Contracted Repairs - Non EDP	29,676	7,351	10,000	15,500	55.0%
36	6351200					
	Real Estate Rental	1,919,426	1,853,732	1,779,000	1,885,400	6.0%
37	6351300					
	Vehicle Rental	1,953	2,419	3,000	1,700	-33.3%
38	6351400					
	Office Equipment Rental	271,482	268,129	278,000	302,300	8.7%
39	6351500					
	Other Rentals	20,058	28,759	26,000	35,300	35.8%
40	6361100					
	Office Supplies	248,154	186,048	227,000	219,000	-3.5%
41	6361300					
	Educational Supplies (Books)	6,714	1,554	11,000	11,000	0.0%
42	6362100					
	Medical Supplies	642	1,280	-	5,300	-
43	6371010					
	SW License non-recurring less than \$5,000	239,773	41,966	55,250	63,600	15.1%
44	6371011					
	SW License recurring less than \$5,000	2,121	-	-	-	-
45	6372005					
	HW Desktop less than \$5,000	160,006	188,204	143,000	201,000	40.6%
46	6373000					
	Furniture and Fixtures	106,915	19,311	23,300	41,500	78.1%
47	6374000					
	Other Equipment	10,389	5,953	-	2,000	-
48	6380710					
	Motorized Equipment Supplies	26,146	16,610	22,000	23,000	4.5%
49	6391010					
	Postage	992,584	1,227,843	1,145,600	1,025,000	-10.5%
50	6391020					
	Freight	6,062	5,068	7,000	7,000	0.0%
51	6391030					
	Printing	305,254	165,543	276,000	246,700	-10.6%
52	6391040					
	Subscriptions	78,050	86,500	97,350	100,300	3.0%
53	6391050					
	Membership Dues	31,874	36,861	32,200	35,200	9.3%
54	6391070					
	Conference Expense	34,851	35,710	51,000	51,000	0.0%
55	6391120					
	Insurance, Surety & Fidelity Bonds	20,118	19,393	24,000	23,000	-4.2%
56	6399999					
	Other Operational Expenses	1,778,651	1,597,940	1,933,500	1,951,800	0.9%
	OPERATIONAL EXPENSES TOTAL	\$11,521,537	\$11,135,932	\$11,919,500	\$12,135,700	1.8%
57	6400651					
	Telecomm -Voice HW greater than \$25,000	37,413	-	-	-	-
58	6450210					
	Automobiles	61,996	21,200	-	-	-
59	6450280					
	Purchase EDP - Computers	37,330	47,830	-	-	-
60	6450301					
	SW License non-recurring greater than \$5,000	36,740	30,745	30,000	30,000	0.0%
61	6450302					
	SW License recurring greater than \$5,000	5,885,615	3,275,156	6,126,500	5,778,300	-5.7%
62	6450310					
	Office Equipment	-	5,900	-	-	-
	FIXED ASSETS TOTAL	\$6,059,094	\$3,380,831	\$6,156,500	\$5,808,300	-5.7%
	TOTAL	\$42,420,657	\$41,336,742	\$41,689,000	\$42,523,000	2.0%

Operational Expenses and Fixed Asset combined % change:

18,076,000

17,944,000

-0.7%

2014-15 Administrative Budget Request --- Notes of Explanation

Line #	Commitment Item Number & Description	Notes:
1	6111000 Salaries	275 existing Positions including 25 vacancies funded @ 13 pay periods, and 1 LWOP funded @ 26.1 pay periods. 31 positions moved to the Investment Appropriation in 13-14.
2	6113000 Higher classification pay	An estimate.
3	6121000 Wages	Board Per Diem, Intern for Office of Chief Counsel, 3 Annuitant returns for BBA, 11 Govt Svc Interns for BOCC, 1 Human Resources Management Trainee or Annuitant return for ITO. 3 Limited Term Clerk Positions are now Salaried in 13-14.
4	6131000 Overtime	Overtime funds are needed on an on-going basis throughout the agency to meet operational needs.
5	6142000 Hospitalization - State Share	REHP - Annuitant group health program costs. \$334/person/pay - is \$305 in 13-14.
6	6143000 Social Security Contributions - State Share	6.2% - same as 13-14.
7	6144000 Medicare - State Share	1.45% - same as 13-14.
8	6145000 Retirement Contributions - State Share	19.99% - is 15.12% in 13-14.
9	6146000 State Workers Insurance Fund - State Share	.50% - is 2.05% in 13-14.
10	6147000 Employee Life Insurance - State Share	\$4.58 /person/pay - is \$4.51 in 13-14 (up to \$1,000 of payroll/month -- up to a \$40,000 salary limit).
11	6148000 Health Benefits - State Share	Active employee group health program costs. \$455/person/pay - is \$425 in 13-14.
12	6149000 Unemployment Compensation - State Share	No estimate.
13	6151000 Leave Payout Assessment	1.85% of Salary and OT - is 1.7% in 13-14.
14	6311000 Travel	An estimate for travel to attend benefit counseling sessions, meetings, and various conferences.
15	6321000 Training & Conference Registration	An estimate for training opportunities.
16	6331100 Telecomm - Recurring	An estimate for recurring charges for trunk lines, DID's, toll free lines, data lines, cell phones, etc. Includes a reduction in the Commonwealth Shared Services contract.
17	6331200 Telecom - Voice Hardware less than \$5,000	An estimate for the purchase of telephones, headsets, phone cords and to replace broken and/or stock equipment.
18	6332300 Electricity	Electricity estimate for the computer room.
19	6341100 Consultant Services - Non IT	Includes the yearly actuarial services, yearly financial audit, and medical services related to disability retirement applications.
20	6341212 Consulting - Managed Services - (vendor hosted SW)	Outsourced services for day-to-day management of vendor hosted software solution/components not owned by the Commonwealth at the conclusion of the contract. Consultants for maintaining WebEx services.
21	6341215 Consulting - Maint & Support - (post implementation)	Software maintenance for application maintenance and support. (IBM, ImageTech, VMWare, Serena Team Track).
22	6341216 Consulting - Security (Outsourced Inf Sec Services)	Outsourced Information Security Services - Firewall engineer support services for PSERS.
23	6341218 Consulting - General (IT Support)	Time and materials not covered under maintenance for staff augmentation, VOIP phone system, Security Assessment Consultant, and Appalachia.
24	6341219 Consulting - Outsourced Infrastructure Svcs (DPH)	Outsourced infrastructure services for day-to-day management of vendor hosted software solution/components not owned by the Commonwealth at the conclusion of the contract. Includes Data Power House (DPH) Open Systems and SAN support.
25	6342100 Legal Services/Fees	An estimate for monitoring security class actions, court fees, reporting services, hearing examiners, subpoena witnesses, as well as, offset from the Municipal Retirement System.
26	6343100 Specialized Services	Interagency billings: including IES, Civil Service, Comptroller, HR services, Payroll & Travel Services, Purchasing, Classification & Pay, Clerical Pool, SEAP, Labor Relations, and Real Estate Services (DGS Leasing Services). Relocation of Pittsburgh Field Office in 14-15.
27	6343117 Other Specialized Services	Includes CEM Survey, address updates/verifications (Equipax & Lexis Nexis), offsite storage of PSERS records (Iron Mountain & ADS), surplus removal, shredding of confidential documents, and Active Certified and Annuitant elections (no elections in 12-13 & 14-15).
28	6343200 Advertising	An estimate for ads in newspapers for recruiting.
29	6343300 Medical, Mental, & Dental Services	Maintenance of AED (Automated External Defibrillator) equipment.
30	6344302 Software Licensing - Maintenance	Helpdesk and patch support. Oracle (DLT), Unisys, Cypress Prod (Del), Cypress UAT/PQA (V3 test environment), Microsoft Assurance, and Serena Team Track.
31	6344303 Hardware Server - Maintenance	Maintenance services on PSERS in-house servers (Pomeroy).
32	6344304 Hardware Network - Maintenance	Includes Cisco firewall support and Cisco SmartNet Maintenance.
32a	6344306 Hardware Periphery - Maintenance	Maintenance services for printers and scanners out of warranty (Pomeroy).
33	6344307 Hardware Desktop - Maintenance	Maintenance for desktop computer equipment (Pomeroy).
34	6344400 Contracted Maintenance Non EDP	Includes PBX Equipment, Helpdesk and support for trade desk phone system, Fax Machines, wireless scanners and other office equipment.
34a	6344420 Telecom Data Services	Maintenance support for data telecommunications hardware including monitoring data circuits. Includes a reduction in the Commonwealth Shared Services contract and new switches.
35	6344600 Contracted Repairs - Non EDP	An estimate for services provided by an electrical service contractor and Headquarter renovations.
36	6351200 Real Estate Rental	Includes building, parking and storage rentals.
37	6351300 Vehicle Rental	Vehicle lease for the Mail Center, temporary transportation when required, and leasing service costs.
38	6351400 Office Equipment Rental	Copier and printer leases for Agency. One new lease in 14-15 (will include the cost of toner).
39	6351500 Other Rentals	Lease of postage mailing machines and water cooler rentals.
40	6361100 Office Supplies	Miscellaneous office supplies and post processing equipment supplies.
41	6361300 Educational Supplies (Books)	An estimate including reference material for the Chief Counsel's Office.

2014-15 Administrative Budget Request --- Notes of Explanation

Line #	Commitment Item Number & Description	Notes:
42	6362100 Medical Supplies	2 new AED units in 14-15. No AED units needed replaced in 13-14.
43	6371010 SW License non-recurring less than \$5,000	Includes new and unplanned Software, Desktop SW due to Windows 7 migration, and AutoCAD. Upgrades to Windows 7 migration 11-12.
44	6371011 SW License recurring less than \$5,000	No estimate.
45	6372005 HW Desktop less than \$5,000	Replacement of Agency PCs, new/unplanned hardware, and upgrade of network printers.
46	6373000 Furniture and Fixtures	An estimate of replacement furniture.
47	6374000 Other Equipment	An estimate. New postage mailing machines in 11-12.
48	6380710 Motorized Equipment Supplies	An estimate for fuel purchases and repairs for PSERS vehicles; fleet decreased by 4 in 12-13 and 1 in 13-14.
49	6391010 Postage	An estimate for postage requirements that includes member newsletters, 1099s, Board Elections, etc. No elections in 14-15.
50	6391020 Freight	An estimate for United Parcel Service, FedEx and DHL.
51	6391030 Printing	Printing costs for newsletters, annual updates, and other member communications, CAFR, letterhead and business cards.
52	6391040 Subscriptions	An estimate of the Agency's subscriptions.
53	6391050 Membership Dues	An estimate of the Agency's memberships.
54	6391070 Conference Expense	An estimate including Field Office Room Rentals, Exit Counseling Meetings, and Board Meeting Luncheons.
55	6391120 Insurance, Surety & Fidelity Bonds	General Services: including EE Self Insurance, Property Insurance, Automobile Insurance, Tort Claims, and other Insurances.
56	6399999 Other Operational Expenses	Treasury Services billing and state records center billings.
57	6400651 Telecomm - Voice HW greater than \$25,000	No estimate. Agency PBX replacement in 11-12.
58	6450210 Automobiles	No Estimate for 14-15. PSERS owns 11 automobiles. PSERS replaced 4 automobiles in 11-12 and replaced 1 in 12-13. Prior to this, PSERS had not purchased automobiles since the 06-07 Fiscal Year.
59	6450280 Purchase EDP - Computers	No estimate. Distance Communication Hardware purchased in 11-12 and 12-13.
60	6450301 SW License non-recurring greater than \$5,000	Includes Security Assessment Software and new/unplanned software.
61	6450302 SW License recurring greater than \$5,000	Vitech Systems Group - annual technical and helpdesk support for V3 business application, for V3 Browser Upgrade PRR for \$2,000,000, and change requests.
62	6450310 Office Equipment	No estimate. Scanner was purchased in 12-13.

**DIRECTED COMMISSIONS RECAPTURE PROGRAM
DIRECTED COMMISSIONS APPROPRIATION**

Directed Commissions Appropriation #6012700000
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	2012-13 <u>Actual</u>	2013-14 <u>Rebudget</u>	2014-15 <u>Request</u>
Budgetary Reserve*	\$ -	\$ 2,000,000.00	\$ 2,000,000.00

*May be used for actuarial fees, change orders, and enhancements to the pension system required due to pension legislation.

Public School Employees' Retirement System

**Budget Request
Fiscal Year 2014-15**



Administrative Budget Request 2014-15

- **Personnel \$24,579,000**
4.1% increase from 2013-14
- **Operational & Fixed Assets \$17,944,000**
0.7% decrease from 2013-14
- **PRR – V3 Browser Conversion \$2,000,000**
- **Total \$42,523,000**
Overall a 2.0% increase over 2013-14

Administrative Budget Request 2014-15

- **Employee Benefit Rate Increases**
 - **Personnel factors increased:**
 - Employer Retirement Contributions increased by 36%
 - Annuitant Health 7% and Active Employee Health insurance 5%
- **Operational Line Items Decreased**
 - Bureau reductions to line items without losing Operational Integrity
- **Formal Worksheets/Templates Due to Office of the Budget upon Board Approval**
 - Upon Board approval of the Resolution - staff will finish the preparation of all required schedules and templates and forward them to the Office of the Budget

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Administrative Budget Request 2014-15

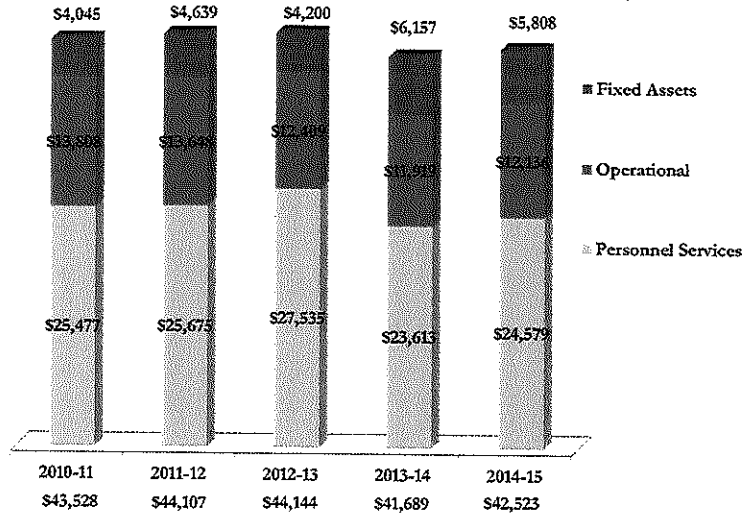
SUMMARY BY FUND & APPROPRIATION Public School Employees' Retirement System

	FY2013/14	FY2014/15
	Enacted Budget	Budget Request
Administrative	\$ 41,689	\$ 42,523
Directed Commissions	2,000	2,000
Health Insurance Account (HIA)	2,373	2,447
HIA Health Options Program	2,836	2,863
Investment Related	15,835	15,733
TOTAL	\$ 64,733	\$ 65,566

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Administrative Budget Request 2014-15

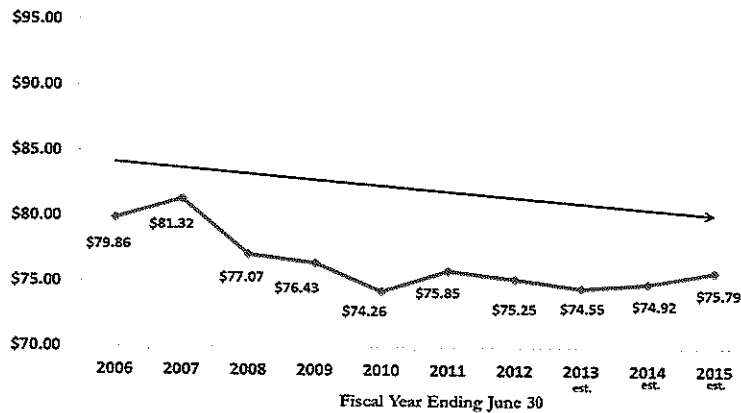
Five Year Budget Comparison (in thousands)



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Administrative Budget Request 2014-15

10 Year Trend of PSERS' Administrative Cost per Member
(Active, Annuitants and Beneficiaries)



Note: Fiscal Years 2011-2013 exclude non-recurring costs for Act 120 and V3 Browser Conversion.

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Administrative Budget Request 2014-15

- **Personnel Services**
 - 2% General Pay increase due July 2014 and a 2.25% Longevity increase due January 2015
 - Decreases to Benefit Line Items
 - 3, 4 - Wages and Overtime combined are 17.3% less than 2013-14 enacted budget
 - 9 - State Workers Insurance fund factor dropped to 0.5% from 2.05%
 - Increases to Benefit factors
 - 5 - Retiree Health to \$334 from \$305
 - 8 - Retirement contribution to 19.99% from 15.12%
 - 11 - Active Health to \$455 from \$425

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Administrative Budget Request 2014-15

Total Personnel Costs as distributed within the Administrative, Investment Related, Health Insurance Account and Health Options Program Budgets:

Number of Personnel	Administrative Budget	Investment Related Budget	Health Insurance Program Budget	Health Options Program Budget	Total Personnel Budget
275	\$ 24,579,000		\$ 664,550	\$ 357,838	\$ 25,601,388
31		7,297,743	18,400	9,908	7,326,051
8			495,683	266,903	762,586
314	\$ 24,579,000	\$ 7,297,743	\$ 1,178,633	\$ 634,649	\$ 33,690,025

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Administrative Budget Request 2014-15

- **Operational**

- 24 - Data Powerhouse - \$2,130,000
- 30 - Software Licensing – Maintenance - \$1,052,800
- 36 - Real Estate Rental - \$1,885,400
- 49 - Postage - \$1,025,000
- 56 - Treasury Services - \$1,937,800

- **Fixed Assets**

- 61 - VYTech - \$3,566,000
- 61 - PRR V3 Browser Conversion - \$2,000,000

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Administrative Budget Request 2014-15

Program Revision Request (PRR) –Upgrade the PSERS V3-Classic Version Benefits Administration System to V3 Browser Edition

- \$1,000,000 was utilized from FY2011-12 waiver for 2012-13 expenses
- \$2,000,000 in FY2013-14 Budget
- \$2,000,000 in FY2014-15 Budget Request
- Estimated to be completed in FY2017-18 at a total PRR cost of \$10 million

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Administrative Budget Request 2013-14

In Summary –

Administrative Budget Request Total is
\$42,523,000

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2014-15 Directed Commissions

Recapture Program

Directed Commissions Appropriation Budget

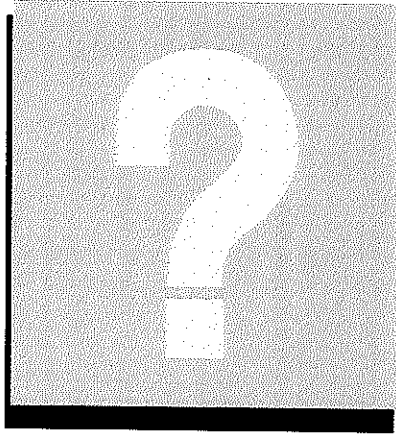
\$2,000,000

(same as 2013-14)

Budgetary Reserve - May be used for actuarial fees, change orders, and enhancements to the pension system required due to pension legislation.

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QUESTIONS?



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**Proposed
PSERB Resolution 2013-____
RE: 2014-15 Administrative Budget and
Directed Commissions Recapture Program Budget
October 4, 2013**

RESOLVED, that the Audit/Budget Committee of the Public School Employees' Retirement Board (the "Board") hereby recommends that the Board approve the 2014-15 Administrative Budget, not to exceed \$42,523,000 and the 2014-15 Directed Commissions Recapture Program Budget, \$2,000,000, for the Public School Employees' Retirement System as more particularly set forth in the attached summaries.